India Infoline Result Update
India Cements Ltd *(Q4 FY07)*

Rating: SELL CMP: Rs170 Target Price: Rs177

April 23, 2007

- **Net Sales increases by 36.2% to Rs5.8bn**
- **Operating profit increases by 149.5% to Rs1.9bn**
- **Operating margin increases by 1500 bps to 33.1%**
- **Realization per ton increases by 32% to Rs2798**
- **Cost per ton increases by 7.7% to Rs1872**
- **PAT stood at Rs1.4bn for Q4FY07 compared to Rs241mn for Q4FY06**

Financials Highlights

Period to	03/07	03/06	Growth	FY07	FY08P	FY09P
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(12)
Net Sales	5,758	4,228	36.2	20,497	23,605	24,435
Expenditure	(3,852)	(3,464)	11.2	(13,880)	(15,658)	(16,717)
% of Net sales	66.9	81.9		67.7	66.3	68.4
Operating Profit	1,906	764	149.5	6,617	7,947	7,718
% of Net sales	33.1	18.1		32.3	33.7	31.6
Other Income	22	18	21.7	102	60	60
Interest	(331)	(314)	51.7	(1,430)	(1,260)	(1,100)
Depreciation	(194)	(197)	(1.6)	(777)	(918)	(1,068)
PBT	1,403	270	419.3	4,512	5,829	5,610
Tax	(5)	(29)	(82.8)	(17)	(1,552)	(1,515)
% of PBT	0.4	10.8		0.4	26.6	27.0
PAT before EO	1,398	241	479.9	4,495	4,277	4,095
% of Net sales	24.3	5.7		21.9	18.1	16.8
EO	-	29.2		-	-	-
PAT after EO	1,398	270	417.2	4,495	4,277	4,095
Adjusted EPS (Rs)				19.4	18.5	17.7
P/E @ CMP of Rs170				8.8	9.2	9.6

Cement realization go up 32% yoy and 3.6% qoq

Per ton blended realization for ICL for Q4FY07 has gone up to Rs2798 for Q4FY07. Cement price in key AP market has rallied in the month of January and February, whereas in Karnataka and Kerala the growth was subdued. We expect cement realisation to remain flattish from the present levels for the next one year with a possibility of a dip in monsoon months. Higher capacity utilization for South cement plants is expected in FY08 and price dip is expected in the second half of FY09 only, as more capacities come in. We don't expect huge import volumes to dampen the pricing scenario, but further Government measures may dampen the view.

Volumes grow marginally

Cement volumes for ICL has grown by 3.2% to 2.06mn ton for Q4FY07, largely due to improvement in blending. We expect volumes to be at 8.5mn ton and 9.2mn ton for FY08 and FY09 respectively for ICL without Visakha Cement volumes. ICL is putting up 2mn ton cement capacity and modernization at its various plants, which is expected to complete by March 2008.

Margins improve as realisations pick up and costs come down

Power cost for ICL has come down both yoy and qoq due to lesser outgo for APGPCL power in the quarter. Power cost per ton has come down by 6.6% yoy to Rs593 per ton. Cost per ton has gone up by 7.7% on yoy basis but came down on qoq basis for Q4FY07. Realisations increased by 32% yoy and 3.6% on qoq basis. We expect margins to improve in FY08 and come down in FY09 when more cement capacities come in Southern markets.

Income tax not provided for FY07

ICL has not provided Income tax for FY07 due to impending merger with Visaka Cements. Visakha Cement is having accumulated losses and unabsorbed depreciation in its books to the tune of Rs3.3bn which will be useful in reducing tax burden for FY07 and FY08. For FY07 ICL expects effective tax rate to fall below MAT. We have considered higher effective tax rate for FY08 and FY09 as ICL would be exhausting accumulated losses and depreciation including Visaka Cement's by H1FY08, which has reduced our EPS estimates also for FY08 and FY09.

Valuation

We expect ICL to post earnings per share of Rs18.5 and Rs17.7 respectively for FY08 and FY09 without including Visakha Cement figures. At consolidated level including Visaka Cement EPS comes to Rs18.6 and Rs17.5 for FY08 and FY09 respectively. With restriction in pricing power and inflation still continuing at high levels we expect the realization increase to be flat going forward for ICL. There are indications of demand slowing down for housing due to higher interest rates which may reduce demand growth for cement. As the price appreciation possibility is looking limited we maintain our SELL rating on the company.